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Is making a profit the only social responsibility of business?

If we can still remember a day when the sole purpose of a business is to generate a profit, the concept of socially responsible businesses was definitely not even on the horizon. Seemingly as technology advances, the scale of businesses continue to grow into highly influential corporations. Today, people are constantly surprised by the variety of ways these powerhouses can manipulate our lives when the truth smacks them in the heads. Historical episodes proved us again and again that corporations' interest in maximizing profits seemingly contradicts with the goal of sustainable development based on ethical, economical, and environmental criteria. In order to maximize the short-term profit, many corporations archived their goals via unethical means that led to irreversible outcomes, such as letting an excessive amount of untreated chicken manure into streams and consequently causing severe ecosystem damage to two thirds of the Chesapeake Bay and its surrounding neighborhoods. Under today's political and environmental pressure, should corporations become socially responsible in addition to profit maximization? Can corporations even be held accountable for directly or indirectly affecting the list of stakeholders ranging from shareholders and governments to local communities?

Friedman claims that making a profit is indeed the only responsibility of any business, based on the principal of the free market. First of all, with regards to social responsibilities, corporations do not have to contribute to the betterment of society. In fact, only people have social responsibilities. A corporation or business is a voluntary collection of people; therefore, a corporation is not an actual person and does not have social responsibilities.

Secondly, corporate executives are agents hired by the corporation's stakeholders to generate as great of a profit as possible. The executive does not personally own any of the wealth the corporation earns. If the executive spends part of the profit to carry out social responsibilities, he or she is not only failing to conduct the task of generating a great profit, but also "robbing" money from the corporation and all the employees. Moreover, he or she becomes a civil servant without the check and balance system that is well established in constitutional and judicial provisions.

The last piece of evidence represents the strongest support to Friedman's stance on this topic. In the interest of long-term survival of the business, it should cease to encourage the prevalent view that pure pursuit of greater profit is evil and immoral. Once regulations and other forms of external control become the norm, the society elevates its expectation of a business's commitment to social responsibilities. At that point, there is no reversible process to lower the general perception.

However, Friedman also points out a few threats undermining his argument, namely exception to his supporting evidence and undesirable consequence. Private proprietors are one of the exceptions that weakens his argument as the executive is also the owner. If he or she wants to spend the money on improving societal conditions, he or she is the principal of the action. Plus, the generally small scale of these private businesses almost guarantees the side effects to the employees will be minimal.

In the other case, if the corporation spends money on providing amenities to the community or improving its government to increase acceptance among the indigenous population, the action becomes justifiable. The benefits of doing so will eventually outweigh the cost of investing in social relations in a cost-benefit analysis model.

DesJardins believes that sustainability and economic prosperity can co-exist harmoniously. His proof encompasses three major areas: the built-in economic growth in the development-based business model, the conversion of cost savings into greater profit, and the creation and growth of markets for “green products”.

Firstly, most environmentalism activists and the likes are advocating the practice of “triple bottom line” or “three pillars of sustainability”. More specifically, this new standard refers to an assessment model based on ethical, ecological, and economic criteria. DesJardins’ emphasis lies on the inclusion of the economic criterion. The departure from growth-based to development-based economy does not negate the importance of profit maximization. In fact, economic consideration is part of what is being sustained. The underlying basis that profit sustains a business has not changed. If a business goes out of its way to pursue ethical and environmental goals so that the reduced profit threatens the very existence of the business, it is not an exemplary case of the sustainable business model because one of the three requirements is not satisfied. When such model is successfully carried out, it can effectively eliminate unqualified and misdirected economic growth. What is desirable for sustainability is also suitable for economic growth in terms of business performance.

Secondly, many ecologically sustainable practices have monetary benefits to them. Practices like cutting down waste by reusing materials in the waste stream can reduce the cost of input. On the one hand, such practice is often encouraged because landfills is a finite resource. Regardless how much harm a landfill site does to the surrounding environment, we cannot endless construct more landfills when the use of empty land is highly contested. On the other hand, reducing the purchase of virgin material in the input whenever possible leads to greater profit because revenue remains the same while costs decreases. It is a mathematically feasible model for long-term growth, at the very least.

Lastly, marketing and advertising play enormous roles in creating demands of products. Marketing agencies often claim that consumers do not know what they want until you show them. Regardless of how sustainable a product is, marketing firms benefit from commercial success, so why prefer one over the other. With such a lack of preference or equality, if you will, established, marketing campaigns and advertisements

should encourage generation of demand for sustainable products, as oppose to the environmentally harmful competitors. Moreover, if businesses are seeking every possible ways to lower the prices so they are more competitive in a mature, contested market, why not migrate to a new segment? Markets for sustainable products is relatively new; therefore, there are many more possibilities to experiment and succeed there. At the current state, “green products” play off the consumers’ enthusiasm for sustainable products to be sold at usually a significant premium over well-established products. The easy qualification to be a novelty product and the extra profit that accompanies it should represents sufficient profit to draw in more manufactures. Collectively with drive for more media publicity for sustainable products, there will certainly be more of them available in the near future.

On the flip side, investors see a huge barrier to migration towards a sustainable economy that is based on the economic, ecological, and ethical criteria. Because of our current economy where profit is the driving force behind all business decisions, sacrifice on short-term profit is prohibited to remain competitive in the market. Not many investors would want to give up an easily attainable profit in comparison to be pioneers in a risky, new market. The stock market shows that a negative quarter earning report can practically demolish the hope of possible investors. In order for a business to stay convincing to its investors, innovative strategies that could possibly threaten short-term profit and jeopardize the business’s existence are rarely encouraged.

Betsy Atkins, the CEO of Baja Ventures, questions the concept of corporate social responsibility, despite the political correctness of it all. Nearly identical to Friedman’s claim, a corporation’s goal is to act on behalf of the shareholders and maximize profit. The management should not use the company owners’ financial assets to conduct social responsibilities. Instead, any individual within the corporation has the right and freedom to donate their own assets to charities they believe in and wish to support. A study she sites in her article shows that individuals much rather donate on their own than given instructions to do so.

However, the management is not always prohibited to spend large sums of money on behalf of the owners. The justification of any expenditure depends on its ultimate purpose. Spending the corporation’s money on improving the environment is seen as unacceptable, but using the same amount of money for advertisement on environmental friendliness to enhance corporate image is absolutely respectable by Atkins’ standard. She believes that by pushing for corporate social responsibilities, most people only realistically desire greater transparency throughout the operation of the company and guarantee for quality products.

Even though a corporation is merely a collection of people for maximizing profit for the shareholders, I think today’s corporations that are larger than ever are innately responsible for the society and the environment. In many cases, large corporations do not just generate a profit for a small group of shareholders, but rather alter the society at large. People’s lifestyle is changed to consume more in the interests of higher revenue. When the masses realize they need to take a turn for the better, corporations are

already in full control of their decision making. Consequently, newly emerged issues caused by the substantial influence of corporations are also on an ever increasing scale. If the majority of corporations are looking after the society and the environment, many of the crises we face today might not even occur in the first place.

Needless to say, some of these crises are centered around sustainability. While corporations are not entirely to be blamed for over exploitation of natural resources and producing excessive amount of waste, they are certainly participants and arguably supporters of the current economy, which heavily emphasizes short-term profit. When profits are at stake, many corporations are deterred from making radical moves that could possibly explore new markets and reform the economy. Look deeper, and you will soon realize the current economy encourages corporations to sacrifice sustainability for greater short-term profit. Whether corporations are unable or unwilling to take a turn for the better, the economy will eventually be forced to change from growth-based to development-based. In such a sustainability-focused economy, corporations will have the freedom to leave the ongoing competition in old product categories to focus on pioneering new markets that are more sustainable. In the end, those corporations that refuse to keep up will run out of resources, while the sustainable markets become a necessity.

Lastly, being socially responsible corporations does not necessarily hinder economic growth. The two goals can overlap in perfect harmony. In fact, social responsibility can help generate greater profits. For instance, spending an insignificant part of the short-term profit to build a healthy relationship with the local communities can easily gain their trust and support for when the corporation needs it. Reducing waste wherever possible is not only environmentally responsible but also eliminating unnecessary costs and therefore increase profit. The same can be said about proper waste disposal. Doing so will definitely preserve the nearby environment and sustain the profit-generating activities for longer.

Citations:

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